

SWM Committee Budget Executive Summary

The Senate Ways and Means fiscal year 2013 budget reflects the changing landscape of how state government functions within the context of our recent economic past. Our budget clearly illustrates two vital lessons that we have learned over the past four difficult years. First, this budget emphasizes fiscal sustainability, understanding that the investments we make today are ineffective if we are unable to protect them in the crisis of tomorrow. Second, this budget prioritizes investments to help understand how we can use available resources in a way that maximizes programmatic efficiency and positive outcomes.

The Committee's budget applies these lessons in the midst of another challenging fiscal environment. In spite of these difficult times, the Committee budget attempts to minimize painful program cuts and make a number of new investments in education, housing and workforce development. Investments in these three areas have been instrumental in an economic recovery that has outpaced that of other states. More importantly, investments in these areas will largely define our ability to prosper in the future.

The Senate Ways and Means Committee budget closes a \$1.4 billion budget gap with a combination of ongoing revenue initiatives, one-time resources and spending reductions. For a second consecutive year, the Committee has been able to close the gap without an overreliance on one-time revenues. In fiscal year 2011, the state required \$1.8 billion in these one-time solutions to close the budget. In FY 2012 and FY 2013 combined, the state will use less than \$1 billion in one-time revenues. Over that same time period, the state has begun to rebuild its reserves, increasing the balance of the Stabilization Fund from \$670 million at the end of FY 2010, to a projected balance of \$1.19 billion at the end of FY 2013.

Fiscal Year 2013 Budget – Revenue and Spending

The Senate Ways and Means Committee does not rely on tax increases to balance its budget. As with the Governor's budget recommendations and the recent House budget, the Committee budget assumes ongoing tax revenues of \$21.95 billion – an increase of \$940 million over the projected FY 2012 amount. This projected revenue increase of 4.47% is indicative of a steady, albeit slow, economic recovery which enables us to avoid many of the painful spending cuts made in recent years.

All told, the Senate Ways and Means budget includes \$32.275 billion in spending; an increase of 3.7% over FY 2012 projected spending. The spending increase is the result of non-discretionary increases in labor, utilities and other costs, as well as new targeted investments. Even with these increases in spending, the Senate Ways and Means budget includes a number of year-to-year spending reductions necessary to live within our means. Of the line items in this budget, 54% have been reduced or level-funded from their FY 2012 GAA level.

The most notable spending increases in the Senate Ways and Means budget are in local aid, education and fixed costs, such as debt service, retiree benefits and health care. Combined, these

spending areas increase \$1.1 billion over the FY 2012 level. As a result, all other areas of the budget combined increase by less than \$50 million. As bleak as those spending numbers seem, they stand in sharp contrast to the previous three budgets that saw year-to-year funding in non-discretionary spending slashed.

In many ways, the revenue assumptions and spending choices made in this budget anticipate FY 2013 to be one of transition. Stronger revenue growth gives us additional resources to avoid spending cuts, while, at the same time, continuing uncertainty requires us to focus not on program expansion, but on beginning to restore the devastation of recent years.

Fiscal Year 2013 Budget – Commitment to Our Communities

The hallmark of the Senate Ways and Means committee budget is the commitment to fulfilling promises to our cities, towns and school districts. This commitment is reflected in major sources of local aid, such as special education, Chapter 70 and Unrestricted General Government Aid, as well as smaller grant programs that give our communities the tools they need to meet their unique challenges.

State Aid

Unrestricted General Government Aid (UGGA), Chapter 70 and Special Education Circuit Breaker are the three largest sources of direct state aid to cities, towns and school districts. In these three program areas alone, the Senate Ways and Means budget proposes \$275.4 million in aid over the amount appropriated in the FY 2012 budget.

This budget fully funds anticipated costs of the state's Special Education Circuit Breaker, estimated at \$242.2 million. This reimbursement program is second to none in its importance to our schools and our communities. Each year, our schools ensure that students with special needs are able to receive the education and services they deserve in the setting that best serves them. However, in order to meet the growing cost of this obligation to our children, school districts look to the state to provide reimbursements for those special needs students with the highest cost. The Senate Ways and Means FY 2013 budget meets this shared obligation – an obligation that has not been fully funded since FY 2008.

In Chapter 70, too, this budget meets the state's obligations to our schools while also taking steps to address structural inequities in the aid distribution formula. The Committee budget provides \$145 million in new aid to ensure that each school district receives sufficient aid to meet its Foundation Budget. In addition, this budget targets \$21 million to communities that receive a smaller share of their foundation budget from the state than should be the case given their property and income wealth. This budget marks the first time since FY 2008 that funds have been specifically directed to these "below target aid" communities. Finally, this budget proposes an additional \$13 million in Chapter 70 aid to ensure that all school districts receive at least an additional \$40 per pupil in aid over and above FY 2012.

Finally, the Committee budget provides \$900 million in UGGA to municipalities. This funding level builds in both the \$834 million appropriated in the FY 2012 GAA as well as the \$65 million supplemental local aid payment made through FY 2011 reserves. Building this \$65 million into the direct appropriation, and not making it contingent on future revenues, provides municipalities with more certainty for their budgeting processes.

Supporting Local Innovation

While UGGA, Chapter 70 and Special Education Circuit Breaker are essential to supporting local services, many times it is smaller grants that allow our communities to invest in programs that work to keep citizens safe, improve educational outcomes and enhance service delivery.

One of the biggest challenges faced by municipalities in recent years is their ability to improve public safety and address the root causes of crime in the face of diminishing budgets. The Committee budget includes \$17 million in total spending for three grant programs specifically designed to help our cities and towns meet this challenge:

- \$6 million for Shannon Grants. These grants help maintain partnerships at the local level between law enforcement, social services and other municipal officials that coordinate the approach to addressing the root causes of gang violence;
- \$8 million for the Safe and Successful Youth Initiative. This program, initiated in FY 2012, targets services to youth who have been identified by local law enforcement as those most likely to be criminally involved. Constructively intervening in the lives of these young adults is essential to their own future and that of their neighborhoods; and
- \$3 million to support municipal police staffing in cities hardest hit by the recession and with the highest crime rates. These funds, first proposed in the Senate's FY 2012 budget, provide direct assistance to cities that have seen violent crime increase just as police staffing levels have decreased.

The Committee budget also recognizes the unique public education challenges faced by different types of communities. Chapter 70 has directed billions of dollars to school districts over the past two decades, but this budget recognizes the importance of complementing these funds with more grant programs that target specific areas of need in public education:

- \$4.5 million for grants to Gateway Cities to improve instruction for English Language Learners and to create career academies. Our Gateway Cities, while spread throughout the Commonwealth, share many of the same challenges when it comes to educating children. These grants recognize that the economic and community development goals of the Gateway City program can only be achieved by providing equal focus to public education;
- \$2 million to support Advanced Placement (AP) courses for underserved populations. This program, which prioritizes AP classes in the STEM fields, has already made great strides in providing rigorous AP coursework to students who would otherwise not have access to AP-level work. Increasing access to this coursework is essential for ensuring that all students are

able to put themselves into a position to not only attend college or other post-secondary work, but excel once there; and

- \$3.5 million for a foundation reserve to help school districts meet funding challenges not addressed in the Chapter 70 formula. Each year, unforeseen events that are not accounted for in the Chapter 70 distribution create funding challenges at the local level. The Foundation Reserve, last funded in FY 2009, can mitigate these issues by allowing districts to apply for one-time support from the state.

Finally, the Committee budget includes \$4 million for the Community Innovation Grant Program which provides grants to municipalities to cover the startup costs of initiatives that will improve service delivery, promote regionalization and reduce costs. In FY 2012, 28 municipal projects – ranging from the merger of municipal public safety services to the creation of a smart phone app that will help people access municipal services – have been funded. In FY 2013 this program will not only evaluate and track existing awards, but will support new areas of municipal innovation.

FY 2013 Budget – Commitment to Jobs

The Senate Ways and Means Committee budget includes \$10.9 million in new investments to better connect our public higher education system to our workforce needs. Persistent unemployment over this past recession has made all too clear the need to strengthen the link between the skills we provide to our students and the demands of growing job sectors. The state’s community colleges are already our best resource for responding to the needs of regional economies; with the additional resources provided in this budget, they will work even more effectively:

- \$3 million to fund scholarships for Massachusetts students pursuing professions in fields determined by the state’s Executive Office of Labor and Workforce Development to be “in-demand.” Giving Labor and Workforce Development the discretion to determine these fields will ensure that these scholarship funds can adapt to the changing needs of the economy;
- \$3 million for a new Rapid Response workforce program for community colleges. This program is designed to expedite the process by which a community college can create a new workforce training program to respond to a specific request from an employer. The goal is that a new workforce training program can be up and running within three months of the original request; and
- \$4 million for the creation of a degree auditing and common course numbering system which will allow students in community colleges to easily track the credits they need to transfer to a state university and compare programs across campuses.

FY 2013 Budget – Commitment to those in Need

In spite of the difficult fiscal circumstances and other pressing demands for state resources, the provision of essential services to our most vulnerable residents remains the primary goal of the Committee budget.

In FY 2012, the Senate budget made clear that balancing the budget could not come at the expense of maintaining mental health services in the Commonwealth. In FY 2013, the Committee budget includes strong provisions to ensure that all regions of the state have adequate access to community and inpatient mental health services by ensuring that 45 state-operated inpatient beds remain in Southeastern Massachusetts as an independent commission examines the appropriate level of state mental health services. Maintaining regional coverage, combined with the opening of the new state of the art Worcester State Hospital, will substantially improve both the depth and scope of mental health services in the Commonwealth.

In addition to mental health, the Committee budget continues to prioritize ensuring that those with physical disabilities have access to the services they need. This budget provides additional funding for Independent Living Centers as well as Turning 22 programs for both blind and developmentally delayed clients. While each of these programs serves a distinct population, they share the common theme of providing care and assistance to those of us who face the steepest challenges.

The Senate has also been a leader in expanding services for those with substance abuse issues and their families. The research is clear: proactively using resources to help people overcome substance abuse problems saves lives and families, and is far less costly than waiting for those same substance abusers to develop other chronic medical conditions or enter the criminal justice system. Over the past year, the Senate has provided new resources to the Department of Public Health to develop new treatment programs, changed the process by which substance abusers can be civilly committed to treatment facilities and made it more difficult to illegally obtain prescription narcotics. This budget builds on those efforts by providing:

- \$76.5 million for the Bureau of Substance Abuse and substance abuse service grants. This funding level will meet federal maintenance of effort requirements and continue to provide existing levels of service throughout the state;
- \$6.3 million for family intervention and step-down services for substance abusers. These programs help get substance abusers into treatment and connected to services that minimize the chance for future relapses; and
- \$5 million for the continued operation of the Massachusetts Alcohol and Substance Abuse Center in Bridgewater.

As has been the case in each of the last four years, the Committee budget is unable to provide the ideal level of support to the myriad of human service programs that assist so many of our residents. However, the continued investments in this budget will maintain essential supports for our neediest citizens and protect services from further cuts.

FY 2013 Budget – Commitment to Results

During the last five years, the Senate has been a leader in improving efficiency and outcomes in government. Whether in transportation, state finance, education or criminal justice, the Senate has addressed major issues facing state government with a focus on data analysis, program integrity and

results. The Committee's FY 2013 budget proposal illustrates the Senate's commitment to program integrity and performance management throughout a host of policy areas and initiatives.

Program Integrity

The most basic step in using tax dollars wisely is verifying that dollars appropriated are used as intended and that any issues of fraud or over-payment are quickly addressed. Last year's Senate budget created a number of new programs to improve our existing program integrity process. This year's Committee budget maintains and expands those efforts:

- **Direct benefits** – over the past year, examples of fraudulent use of direct benefits, such as SNAP and TAFDC, have underlined the importance of carefully investigating the appropriate use of state funds. This budget creates a new Direct Benefit Fraud Unit within the State Police. This new unit will be charged with working with other local, state and federal authorities to systematically investigate and pursue cases where benefits intended to help our neediest families are being misused. In conjunction with a new State Police class, this unit will substantially improve the state's ability to root out these egregious examples of fraud;
- **Vendor auditing** – last year's Senate budget created a new Vendor Auditing Unit in state government. Each year the state spends hundreds of millions of dollars to vendors who provide services in a host of human service areas. This unit is tasked with reviewing financial reports from these vendors and conducting field audits in cases that raise red flags. In FY 2013, this unit is projected to recover more than double its operating appropriation in overpayments;
- **Enhanced agency auditors** – last year's Senate budget created a grant program that provides agencies whose budgets have been cut over the course of the recession with funds to restore auditing capacity in areas with the highest rates of return. In FY 2012, the awards made through this program are expected to return close to five times that amount in foregone cost and payment recoupments;
- **Medicaid audits** - last year's Senate budget provided a new \$1 million investment in MassHealth to fund new auditing capabilities directed at claims processing and payment. In FY 2013, this program is expected to return \$3-6 million in the form of savings and recoupments; and
- **Education audits** - similar to the targeted MassHealth audits in last year's Senate budget, this year's Committee budget includes \$300,000 to rebuild auditing and program integrity capacity in the Department of Early Education and Care and the Department of Elementary and Secondary Education. Each year, these two departments disburse hundreds of millions of dollars in reimbursements, grants and vouchers and yet, due to budget cuts, they have lost capacity to review and audit these payments. The Committee believes that this small investment will have a substantial return.

Program Evaluation

Ensuring that state funds are spent as intended is not sufficient to determine whether or not they are spent wisely. In order to do so, we as a state need to increase our focus on the outcomes of the programs we fund. This year's Committee budget focuses on rigorous evaluation of programs designed to address some of the fundamental issues our Commonwealth faces:

- **English Language Learners (ELL)** – the Committee budget provides funding for an independent evaluation of the new Gateway City English Language Learner grant program. There is no doubt that helping English language learners gain language proficiency is essential in closing the achievement gap. Where there is doubt, however, is how best to accomplish this goal. By tying this new program to an independent field evaluation, we take an important step in removing some of that doubt. As the evaluation proceeds, we can make more informed policy decisions about how resources are best used to address this important policy goal;
- **Youth violence prevention** – as with the ELL program, the Committee budget funds an independent evaluation of the new Safe and Successful Youth Initiative. The goal of the initiative is to target services to youth already involved in gangs or crime. Keeping these children and young adults from continuing down the path they are on would have enormous benefits – to those receiving the services, their families and their neighborhoods – but a rigorous evaluation must be conducted to know which treatments work and deserve additional resources and which are less effective; and
- **Teen pregnancy prevention** – teen pregnancy has immense societal costs. It is estimated that the reduction in the state's teen birthrate over the last two decades saves taxpayers more than \$200 million a year. However, even with the success the state has enjoyed in reducing the teen birthrates, it is still a major issue in some communities. To help the state's existing teen pregnancy prevention program better evaluate existing sites and target new areas for focus, the Committee budget includes \$150,000 to improve data collection and analysis. To put the cost of teen pregnancy in perspective: a 2% reduction in the state's teen birthrate would cover the cost of this investment in one year.

Data Collection

While the Committee is proud of investments this budget includes in the area of program integrity and program evaluation, much work needs to be done in giving the Commonwealth the information it needs to make informed decisions. The only way to gather that information is to improve how state entities collect, share and disseminate data. This budget includes several provisions to improve this process:

- **Special education and early intervention** – each year, hundreds of millions of dollars are spent on special education. Approximately 30,000 children, aged 0-3, receive Early Intervention services each year that have the potential to substantially reduce future need for special education services. This budget includes an investment for the state's Early Intervention program to partner with the Executive Office of Education to better

understand how children who receive EI services interact with special education in the future. Creating this framework for information sharing, while protecting data privacy, has the potential to transform how the state coordinates care across state agencies to reduce costs and, more importantly, improve outcomes;

- **Indigent defense** – last year, the budget included substantial reforms to indigent defense. The reforms focused on increasing the number of public defenders to increase cost certainty, while maintaining existing levels of quality. After almost a year of implementation, there have been calls to make additional changes and yet, as a state, we lack much of the data we need to know if those changes were implemented effectively. Therefore, this budget includes funding for an independent evaluation of the indigent defense reforms. An experienced evaluator will examine the effectiveness of program implementation, highlight areas for change or improvement and leave the state in a much better position to consider further structural changes to the existing system; and
- **Caseload forecasting** – last year’s Senate budget created a new Office of Caseload Forecasting to improve the analysis, development and evaluation of the process for forecasting caseload for eligibility programs, such as MassHealth and child care. Close to half of the state’s budget is driven by projections of future demand for services. When those projections are off, it can have a disastrous effect on the state’s budget flexibility. This new Office works to ensure that the various forecasts are subject to constant evaluation and that those who develop those forecasts have a forum to learn from each other. During the current fiscal year, the Office has, for the first time, produced a report that presents comprehensive information on the development and accuracy of caseload forecasts in a number of different programs. This year’s Committee budget maintains the investment in this new office.

FY 2013 Budget – Commitment to Fiscal Discipline

The recession of 2008-2011 has forced us as a state to reevaluate our shared priorities and improve our ability to ensure that when the next fiscal crisis comes, we are best positioned to respond to it. The Senate, in conjunction with the House and the Governor, has prioritized changing the way we budget to rebuild our reserves, better control spending and improve our fiscal discipline.

Over the last 2 years, we have implemented new provisions to ensure that volatile revenue sources, such as capital gains revenues over \$1 billion and tax settlements, are not built into operating revenues, but instead are deposited directly into the stabilization fund. By the end of FY 2013, these two provisions alone will increase stabilization fund deposits by more than \$300 million.

The ability to build our reserves has been complemented by notable successes in controlling health care and other costs. In FY 2012, MassHealth costs are expected to grow just under 2% from FY 2011. In contrast, between FY 2010 and FY 2011 those same costs grew by 10.2%. In addition, the Committee budget, like House 2 and the House budget, rely on greater than anticipated FY 2011 and FY 2012 savings in the Group Insurance Commission and the Health Connector to offset costs

in FY 2013. Without these recent successes in limiting health care cost growth, many of the investments included in this budget would be impossible.

The Committee's FY 2013 budget recommendations reflect an understanding that the work we have done in managing resources and controlling cost growth is only the beginning and must be sustained to continue our recovery. To that end, this budget:

- Maintains a Stabilization Fund balance of at least \$1.19 billion. While this budget withdraws \$290 million from the Stabilization Fund to balance the budget, this figure is offset by a \$100 million deposit from above benchmark capital gains revenues. This net \$190 million draw is less than the amount used in FY 2011;
- Lowers the minimum amount on tax settlements deposited to the stabilization fund from \$10 million to \$1 million. Under the provisions included in this budget, a maximum of \$30 million in settlements between \$1-10 million would be directed to the General Fund, while the remainder would go to the Stabilization Fund. Over the last 5 years, this provision would have resulted in more than \$175 million in additional deposits into state reserves;
- Adopts the MassHealth cost containment measures proposed in House 2. These measures are expected to generate a further \$400 million in net savings in the program; and
- Uses only \$16 million in one-time trust revenues. Between FY 2010 and FY 2012, the state was forced to rely on significant amounts of these trust sweeps to balance the budget. The Committee budget recommendations limit the use of these one-time resources, which contribute to future budget gaps.

Twelve months ago, this Committee grappled with closing a \$1.9 billion budget gap in the midst of the loss of \$1.5 billion in federal stimulus funds and a stabilization fund balance approaching its lowest level in nine years. Working with our partners in the House and in the Administration, we closed that gap and more than doubled the stabilization fund balance. That work, which resulted in historic highs for the state's bond rating, serves as a template for how this Committee will approach our budget challenges in FY 2013 and beyond.